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Accounting, Business Methods, Investments, and the Exchanges*

Accounts. Their Construction and Interpretation for Business Men and Students of Affairs. By WILLIAM MORSE COLE. Revised and enlarged edition. (Boston: Houghton Mifflin Company. 1915. Pp. x, 445. $2.25.)

Professor Cole is an unquestioned authority on accounts, and the recent edition of his book furnishes additional evidence of his mastery of a science that is more difficult than any other to reduce to writing. The preface states, "accounting is nothing but sublimated common sense applied to finding and telling the truth about business." As the tendency of college men is more and more towards business, it is obvious that more and more they should be prepared for business. And it is too bad that a knowledge of accounts which will tell them "the truth about business" is made so difficult to acquire. Professor Cole's book is extremely well written, yet it leaves one with a feeling that somehow or other it should have been easier to follow and understand. Obviously he is not called upon to write for college students and business and professional men in words of one syllable, and it may be that no one else will do so well, but the fact remains that while accounting should be a required subject in every course leading to a business career it must be presented somewhat differently before it will receive the attention it deserves.

An important improvement in this new edition is the insertion of a series of transactions, arranged as found in books of account, enabling the reader to visualize the principles explained on preceding pages.

One of the greatest problems in accountancy is the proper treatment of depreciation. Professor Cole has rewritten his comments on this subject, and is not quite so caustic in his criticisms of those who carry their property at cost on the asset side of the balance sheet and a reserve for depreciation of the same property on the liability side. Without doubt, if one wishes to subtract one amount from another, it is better to place one above the other and do it

simply and directly, but many accountants contend that so long as an allowance for depreciation is at best a rough estimate, good practice will permit the asset account to appear at cost as an asset and the allowance for depreciation to appear among the liabilities. The latter treatment saves an apparent appraisal of property accounts which is sometimes inferred where depreciation reserves or allowances are deducted therefrom on the asset side of the balance sheet. Even if the reserve for depreciation is created from earnings as a cost of operation, as distinguished from a safety reserve created out of surplus profits, it is almost sure to be excessive or insufficient and there is much to be said in favor of including it among the liabilities.

Professor Cole's suggestion that the word "allowance" should be used where the item is a deduction from an asset and "reserve" only where it is created out of net profits, is worthy of consideration, but it is doubtful if the majority of accountants will approve. He cites twenty cases, in which ten used "reserve for depreciation" to mean simple overstatement of assets and ten used the same caption to mean true profits reserved for safety. The corporations selected certainly do not represent twenty average concerns, because in at least eight out of ten cases the term "reserve for depreciation" represents a deduction from earnings before a true net profit is determined. In many financial statements an allowance for depreciation is not made until all other items are provided for and frequently the term "net profit" is used before the allowance for depreciation is made. This, however, is due chiefly to ignorance and does not alter the fact. Reserves or allowances for bad debts and similar items should always be deducted from the asset to which they relate.

It is significant that after seven years Professor Cole finds no reason to modify two statements which appeared in the first edition, *viz.*, that "loss on worthless notes cannot be shifted to some one else by the mere fact of discount" and "a contract signed in December for raw material to be delivered and paid for in February constitutes one of the liabilities of the business on January 1st." If every college student could be made to memorize these two simple statements of fact, they would prove of inestimable value in business life.

It is not too much to say that most bankers and business men fool themselves with respect to financial statements and while pub-

lic accountants endeavor to set them right, it is slow work. In a recent failure it was disclosed that while the balance sheet of the bankrupt showed $9,000,000 of liabilities there were outstanding liabilities of $31,000,000 additional, consisting of so-called notes receivable discounted. The "notes receivable" were mostly worthless, so that the endorsement thereon converted them into direct liabilities. The practice had been going on for years, and is still prevalent to a large degree.

The suggestion that contracts for future contracts should be reflected in a balance sheet is more radical. It accords with the theories of professional auditors, but is seldom seen in practice. Where the commitment is not unfavorable and is merely an incident of a going business, there is little to be said in favor of mentioning it on the face of a balance sheet; where the commitment will probably result unfavorably, it certainly must be mentioned or a balance sheet will not set forth the true financial position of a concern at a given date. For this advanced stand Professor Cole deserves great credit.

R. H. MONTGOMERY.

Railroad Accounting. By WILLIAM E. HOOPER. (New York: D. Appleton and Company. 1915. Pp. xi, 461. $2.00.)

Mr. Hooper's book is undoubtedly designed for the use of practical railroad accountants as well as for investors and students of railroad operations. It covers both theoretical accounting problems and practical bookkeeping methods. The subject is one that is difficult to handle in all its aspects. Mr. Hooper states that his prime purpose is to show the "why" of the accounts, and not to discuss the question whether the Interstate Commerce accounting rules are the best that can be devised. One can not read very far into his pages, however, without discovering that he is not in accord with the strict classification of "additions and betterments." Thus, on page 38, he says:

> The commission, by defining expenses so as to exclude betterments is putting the roads in danger of adopting such a short sighted policy that they will not in fair times accumulate a surplus, not necessarily a fund, but a condition of property comparable to the new suit on which they can live in times of depression.

Moreover, the contention of the railroads that betterment expenditures representing the "cost of progress" should be paid out of current earnings, rather than the issue of new securities is